

SECURIT



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Jan 14 2005

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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER

8-22482

**FACING PAGE****Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**REPORT FOR THE PERIOD BEGINNING 12/01/03 AND ENDING 11/30/04  
MM/DD/YY MM/DD/YY**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

Barwell Securities Corporation

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3209 Ingersoll Avenue, Suite 210

(No. and Street)

Des Moines

Iowa

50312

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code — Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

McGowen, Hurst, Clark &amp; Smith P.C.

(Name — if individual, state last, first, middle name)

1601 West Lakes Parkway, Suite 300, West Des Moines, Iowa

50266

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

JAN 27 2005

THOMSON  
FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).



David W. Hurst, CPA  
Kathleen A. Koenig, CPA  
Robert R. McGowen, CPA  
Michael W. McNichols, CPA  
Thomas J. Pflanz, CPA  
John A. Schmidt, CPA  
Daniel A. Schwarz, CPA  
S. James Smith, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Barwell Securities Corporation

We have audited the accompanying statement of financial condition of Barwell Securities Corporation as of November 30, 2004, and the related statement of income (loss), changes in ownership equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Barwell Securities Corporation as of November 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Computation of Net Capital, Computation of Basic Net Capital Requirement, Computation of Aggregate Indebtedness, and the Statement of Changes in Liabilities Subordinated to the Claims of General Creditors are presented for the purposes of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*McGowen, Hurst, Clark & Smith, P.C.*

West Des Moines, Iowa  
December 17, 2004

[www.mhscpa.com](http://www.mhscpa.com)

Member of CPAmerica International  
and the American Institute of Certified Public Accountants

Founded in 1946

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106 E. Jefferson Street, P.O. Box 312  
Winterset, Iowa 50273-0312  
515-462-1882 • Fax: 515-462-1577

## OATH OR AFFIRMATION

I, Roger D. Hershey, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Barwell Securities Corporation, as of November 30, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*[Signature]*  
Signature  
*[Signature]*  
Title

*Cindy K. Klaassen*  
Notary Public



This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☒ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**FORM  
X-17A-5**

(Financial and Operational Combined Uniform Single Report)

**PART IIA** 12

3/91

(Please read instructions before preparing Form.)

This report is being filed pursuant to (Check Applicable Block(s)):

- 1) Rule 17a-5(a) ☒ 16      2) Rule 17a-5(b) ☐ 17      3) Rule 17a-11 ☐ 18  
4) Special request by designated examining authority ☐ 19      5) Other ☐ 26

NAME OF BROKER-DEALER

SEC FILE NO.

8-22482 14

FIRM ID. NO.

42-1091365 15

FOR PERIOD BEGINNING (MM/DD/YY)

12/01/03 24

AND ENDING (MM/DD/YY)

11/30/04 25

Barwell Securities Corporation 13

ADDRESS OF PRINCIPAL PLACE OF BUSINESS (Do Not Use P.O. Box No.)

3209 Ingersoll Avenue, Suite 210 20  
(No. and Street)

Des Moines 21 Iowa 22 50312 23  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code)—Telephone No.

Roger D. Hershey 30

515-255-6210 31

NAME(S) OF SUBSIDIARIES OR AFFILIATES CONSOLIDATED IN THIS REPORT:

OFFICIAL USE

32	33
34	35
36	37
38	39

DOES RESPONDENT CARRY ITS OWN CUSTOMER ACCOUNTS?

YES ☐ 40 NO ☒ 41

CHECK HERE IF RESPONDENT IS FILING AN AUDITED REPORT

☒ 42

**EXECUTION:**

The registrant/broker or dealer submitting this Form and its attachments and the person(s) by whom it is executed represent hereby that all information contained therein is true, correct and complete. It is understood that all required items, statements, and schedules are considered integral parts of this Form and that the submission of any amendment represents that all unamended items, statements and schedules remain true, correct and complete as previously submitted.

Dated the 11 day of Jan 19 2005

Manual signatures of:

1) [Signature]  
Principal Executive Officer or Managing Partner

2) \_\_\_\_\_  
Principal Financial Officer or Partner

3) \_\_\_\_\_  
Principal Operations Officer or Partner

**ATTENTION**—Intentional misstatements or omissions of facts constitute Federal Criminal Violations. (See 18 U.S.C. 1001 and 15 U.S.C. 78f(a))

TO BE COMPLETED WITH THE ANNUAL AUDIT REPORT ONLY:

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report

Name (If individual, state last, first, middle name)

McGowen, Hurst, Clark & Smith P.C.

70

ADDRESS	Number and Street	City	State	Zip Code
1601 West Lakes Parkway Suite 300		West Des Moines	Iowa	50266

71

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74

Check One

(X) Certified Public Accountant

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( ) Public Accountant

76

( ) Accountant not resident in United States or  
any of its possessions

77

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WORK LOCATION	REPORT DATE MM/DD/YY	DOC. SEQ. NO.	CARD				

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**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER** Barwell Securities Corporation

**N 3**

**100**

**STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND  
CERTAIN OTHER BROKERS OR DEALERS**

as of (MM/DD/YY) 11/30/04

SEC FILE NO. 8-22482

Consolidated

Unconsolidated

99
98
198
199

**ASSETS**

	Allowable	Non-Allowable	Total
1. Cash	\$ 25,257 200		\$ 25,257 750
2. Receivables from brokers or dealers:			
A. Clearance account	2,885 295		
B. Other	300	550	2,885 810
3. Receivables from non-customers	355	600	830
4. Securities and spot commodities owned, at market value:			
A. Exempted securities	418		
B. Debt securities	419		
C. Options	420		
D. Other securities	424		
E. Spot commodities	430		850
5. Securities and/or other investments not readily marketable:			
A. At cost	130		
B. At estimated fair value	440	610	860
6. Securities borrowed under subordination agreements and partners' individual and capital securities accounts, at market value:			
A. Exempted securities	150		
B. Other securities	160		
7. Secured demand notes:	470	640	890
market value of collateral:			
A. Exempted securities	170		
B. Other securities	180		
8. Memberships in exchanges:			
A. Owned, at market	190		
B. Owned, at cost		650	
C. Contributed for use of the company, at market value		660	900
9. Investment in and receivables from affiliates, subsidiaries and associated partnerships	480	670	910
10. Property, furniture, equipment, leasehold improvements and rights under lease agreements, at cost-net of accumulated depreciation and amortization	490	477 680	477 920
11. Other assets. <u>Deferred income taxes</u>	535	735	930
12. TOTAL ASSETS	\$ 28,142 540	\$ 477 740	\$ 28,619 940

The accompanying notes are an integral part of these financial statements OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

BROKER OR DEALER **Barwell Securities Corporation**

as of 11/30/04

### STATEMENT OF FINANCIAL CONDITION FOR NONCARRYING, NONCLEARING AND CERTAIN OTHER BROKERS OR DEALERS

#### LIABILITIES AND OWNERSHIP EQUITY

<u>Liabilities</u>	<u>A.I. Liabilities</u>	<u>Non-A.I. Liabilities</u>	<u>Total</u>
13. Bank loans payable:.....	\$ 1045	\$ 1255	\$ 1470
14. Payable to brokers or dealers:			
A. Clearance account.....	1114	1315	1560
B. Other.....	1115	1305	1540
15. Payable to non-customers.....	1155	1355	1610
16. Securities sold not yet purchased, at market value.....		1360	1620
17. Accounts payable, accrued liabilities, expenses and other.....	798 1205	1385	798 1685
18. Notes and mortgages payable:			
A. Unsecured.....	1210		1690
B. Secured.....	1211	1390	1700
19. Liabilities subordinated to claims of general creditors:			
A. Cash borrowings:.....		30,500 1400	30,500 1710
1. from outsiders \$ 970			
2. Includes equity subordination (15c3-1 (d)) of .... \$ 20,000 980			
B. Securities borrowings, at market value:...		1410	1720
from outsiders \$ 990			
C. Pursuant to secured demand note collateral agreements:.....		1420	1730
1. from outsider: \$ 1000			
2. Includes equity subordination (15c3-1 (d)) of .... \$ 1010			
D. Exchange memberships contributed for use of company, at market value.....		1430	1740
E. Accounts and other borrowings not qualified for net capital purposes.....	1220	1440	1750
20. TOTAL LIABILITIES.....	\$ 798 1230	\$ 30,500 1450	\$ 31,298 1760

#### Ownership Equity

21. Sole proprietorship.....		\$ 1770
22. Partnership (limited partners.....)	1020	1780
23. Corporation:		
A. Preferred stock.....		1791
B. Common stock \$1 par value 8,000 shares authorized. 3,750 shares issued and outstanding.....	3,750	1792
C. Additional paid-in capital.....	119,421	1793
D. Retained earnings.....	( 120,675 )	1794
E. Total.....	2,496	1795
F. Less capital stock in treasury.....	( 5,175 )	1796
24. TOTAL OWNERSHIP EQUITY.....	\$ ( 2,679 )	1800
25. TOTAL LIABILITIES AND OWNERSHIP EQUITY.....	\$ 28,619	1810

The accompanying notes are an integral part of these financial statements

OMIT PENNIES

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT PART IIA

**BROKER OR DEALER**

Barwell Securities Corporation

For the period (MMDDYY) from 12/01/03 3932 to 11/30/04 393  
Number of months included in this statement 12 393

## STATEMENT OF INCOME (LOSS)

### REVENUE

1. Commissions:		
a. Commissions on transactions in exchange listed equity securities executed on an exchange	\$ 11,217	393
b. Commissions on listed option transactions	0	393
c. All other securities commissions	9,352	393
d. Total securities commissions	20,569	394
2. Gains or losses on firm securities trading accounts		
a. From market making in options on a national securities exchange		394
b. From all other trading		394
c. Total gain (loss)		395
3. Gains or losses on firm securities investment accounts		395
4. Profit (loss) from underwriting and selling groups		395
5. Revenue from sale of investment company shares		397
6. Commodities revenue	108,207	399
7. Fees for account supervision, investment advisory and administrative services		397
8. Other revenue	70	399
9. Total revenue	\$ 128,846	403

### EXPENSES

10. Salaries and other employment costs for general partners and voting stockholder officers	\$		412
11. Other employee compensation and benefits	39,614		411
12. Commissions paid to other broker-dealers	54,100		414
13. Interest expense	3,660		407
a. Includes interest on accounts subject to subordination agreements	3,660	4070	
14. Regulatory fees and expenses	2,416		419
15. Other expenses	31,677		410
16. Total expenses	\$ 131,467		420

### NET INCOME

17. Net income (loss)-before Federal income taxes and items below (Item 9 less Item 16)	\$ ( 2,621 )		421
18. Provision for Federal income taxes (for parent only)			422
19. Equity in earnings (losses) of unconsolidated subsidiaries not included above			422
a. After Federal income taxes of		4238	
20. Extraordinary gains (losses)			422
a. After Federal income taxes of		4239	
21. Cumulative effect of changes in accounting principles			422
22. Net income (loss) after Federal income taxes and extraordinary items	\$ ( 2,621 )		423

### MONTHLY INCOME

23. Income (current month only) before provision for Federal income taxes and extraordinary items	\$		421
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The accompanying notes are an integral part of these financial statements



**BARWELL SECURITIES CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED NOVEMBER 30, 2003**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net loss	\$ (2,621)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation	238
Increase in receivables from brokers	1,325
Decrease in accounts payable and accrued expenses	<u>(2,386)</u>
Cash Used By Operating Activities	<u>(3,444)</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Purchase of treasury stock	<u>(153)</u>
----------------------------	--------------

**NET DECREASE IN CASH** (3,597)

**CASH BALANCE - BEGINNING OF YEAR** 28,854

**CASH BALANCE - END OF YEAR** \$ 25,257

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:**

Cash paid during the year for interest	<u>\$ 3,660</u>
Cash paid during the year for income taxes	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT**  
**PART IIA**

**BROKER OR DEALER**

**Barwell Securities Corporation**

as of 11/30/04

**Exemptive Provision Under Rule 15c3-3**

25. If an exemption from Rule 15c3-3 is claimed, identify below the section upon which such exemption is based (check one only)

- |  |   |     |
|--|---|-----|
| A. (k) (1)—\$2,500 capital category as per Rule 15c3-1 .....   |   | 455 |
| B. (k) (2)(A)—“Special Account for the Exclusive Benefit of customers” maintained .....  |   | 456 |
| C. (k) (2)(B)—All customer transactions cleared through another broker-dealer on a fully disclosed basis. Name of clearing firm <u>    Mesirow Financial    </u> | X | 457 |
| D. (k) (3)—Exempted by order of the Commission .....   |   | 458 |

**FINANCIAL AND OPERATION COMBINED UNIFORM SINGLE REPORT  
PART IIA**

**BROKER OR DEALER** Barwell Securities Corporation

as of 11/30/04

**COMPUTATION OF NET CAPITAL**

1. Total ownership equity from Statement of Financial Condition.....	\$	( 2,679 )	348
2. Deduct ownership equity not allowable for Net Capital .....			349
3. Total ownership equity qualified for Net Capital .....		( 2,679 )	350
4. Add:			
A. Liabilities subordinated to claims of general creditors allowable in computation of net capital.....		30,500	352
B. Other (deductions) or allowable credits (List).....			352
5. Total capital and allowable subordinated liabilities.....	\$	27,821	353
6. Deductions and/or charges:			
A. Total nonallowable assets from Statement of Financial Condition (Notes B and C) \$	477	3540	
B. Secured demand note deficiency .....		3590	
C. Commodity futures contracts and spot commodities: proprietary capital charges.....		3600	
D. Other deductions and/or charges.....		3610	
		( 477 )	362
7. Other additions and/or allowable credits (List).....			363
8. Net capital before haircuts on securities positions .....	\$	27,344	364
9. Haircuts on securities (computed, where applicable, pursuant to 15c3-1 (f)):			
A. Contractual securities commitments .....	\$	3660	
B. Subordinated securities borrowings.....		3670	
C. Trading and investment securities:			
1. Exempted securities.....		3735	
2. Debt securities .....		3733	
3. Options .....		3730	
4. Other securities .....		3734	
D. Undue Concentration .....		3650	
E. Other (List).....		3736	
		( 3740 )	374
10. Net Capital .....	\$	27,344	375

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There are no differences in the computation of net capital as of November 30, 2004 between the above computed net capital and the unaudited filing of Part IIA of the Focus report submitted by the Company.

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

**BROKER OR DEALER**

**Barwell Securities Corporation**

as of 11/30/04

### COMPUTATION OF BASIC NET CAPITAL REQUIREMENT

**Part A**

11. Minimum net capital required (6-2/3% of line 19) .....	\$	53	<b>3756</b>
12. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$	5,000	<b>3758</b>
13. Net capital requirement (greater of line 11 or 12) .....	\$	5,000	<b>3760</b>
14. Excess net capital (line 10 less 13) .....	\$	22,344	<b>3770</b>
15. Excess net capital at 1000% (line 10 less 10% of line 19) .....	\$	27,264	<b>3780</b>

### COMPUTATION OF AGGREGATE INDEBTEDNESS

16. Total A.L. liabilities from Statement of Financial Condition .....	\$	798	<b>3790</b>
17. Add:			
A. Drafts for immediate credit .....	\$	3800	
B. Market value of securities borrowed for which no equivalent value is paid or credited .....	\$	3810	
C. Other unrecorded amounts (List) .....	\$	3820	<b>3830</b>
19. Total aggregate indebtedness .....	\$	798	<b>3840</b>
20. Percentage of aggregate indebtedness to net capital (line 19 ÷ by line 10) .....	%	3	<b>3850</b>
21. Percentage of debt to debt-equity total computed in accordance with Rule 15c3-1 (d) .....	%	38	<b>3860</b>

### COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENT

**Part B**

22. 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of the net capital computation including both brokers or dealers and consolidated subsidiaries' debits .....	\$		<b>3870</b>
23. Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital requirement of subsidiaries computed in accordance with Note (A) .....	\$		<b>3880</b>
24. Net capital requirement (greater of line 22 or 23) .....	\$		<b>3760</b>
25. Excess net capital (line 10 less 24) .....	\$		<b>3910</b>
26. Net capital in excess of:			
5% of combined aggregate debit items or \$120,000 .....	\$		<b>3920</b>

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**NOTES:**

- (A) The minimum net capital requirement should be computed by adding the minimum dollar net capital requirement of the reporting broker dealer and, for each subsidiary to be consolidated, the greater of:
1. Minimum dollar net capital requirement, or
  2. 6-2/3% of aggregate indebtedness or 2% of aggregate debits if alternative method is used.
- (B) Do not deduct the value of securities borrowed under subordination agreements or secured demand note covered by subordination agreements not in satisfactory form and the market values of memberships in exchanges contributed for use of company (contra to item 1740) and partners' securities which were included in non-allowable assets.
- (C) For reports filed pursuant to paragraph (d) of Rule 17a-5, respondent should provide a list of material non-allowable assets.

See "Independent Auditor's Report"

Ownership Equity and Subordinated Liabilities maturing or proposed to be withdrawn within the next six months and accruals, (as defined below), which have not been deducted in the computation of Net Capital.

Type of Proposed withdrawal or Accrual See below for code to enter	Name of Lender or Contributor	Insider or Outsider? (In or Out)	Amount to be Withdrawn (cash amount and/or Net Capital Value of Securities)	(MMDDYY) Withdrawal or Maturity Date	Expect to Renew (yes or no)
Y 32 4600	NONE	4601	4602	4603	4604 4605
Y 33 4610		4611	4612	4613	4614 4615
Y 34 4620		4621	4622	4623	4624 4625
Y 35 4630		4631	4632	4633	4634 4635
Y 36 4640		4641	4642	4643	4644 4645
Y 37 4650		4651	4652	4653	4654 4655
Y 38 4660		4661	4662	4663	4664 4665
Y 39 4670		4671	4672	4673	4674 4675
Y 40 4680		4681	4682	4683	4684 4685
Y 41 4690		4691	4692	4693	4694 4695
TOTAL \$				4699	

OMIT PENNIES

Instructions: Detail listing must include the total of items maturing during the six month period following the report date, regardless of whether or not the capital contribution is expected to be renewed. The schedule must also include proposed capital withdrawals scheduled within the six month period following the report date including the proposed redemption of stock and payments of liabilities secured by fixed assets (which are considered allowable assets in the capital computation pursuant to Rule 15c3-1(c)(2)(iv)), which could be required by the lender on demand or in less than six months.

WITHDRAWAL CODE: DESCRIPTION

1. Equity Capital
2. Subordinated Liabilities
3. Accruals
4. 15c3-1(c)(2)(iv) Liabilities

# FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE REPORT

## PART IIA

**BROKER OR DEALER**

**Barwell Securities Corporation**

For the period (MMDDYY) from 12/01/03 to 11/30/04

### STATEMENT OF CHANGES IN OWNERSHIP EQUITY (SOLE PROPRIETORSHIP, PARTNERSHIP OR CORPORATION)

1. Balance, beginning of period.....	\$	95	424
A. Net income (loss).....		( 2,621 )	425
B. Additions (Includes non-conforming capital of.....)	\$	4262	426
C. Deductions (Includes non-conforming capital of.....)	\$	4272	427
2. Balance, end of period (From item 1800) .....	\$	( 2,679 )	428

### STATEMENT OF CHANGES IN LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

3. Balance, beginning of period .....	\$	30,500	430
A. Increases .....			431
B. Decreases .....			432
4. Balance, end of period (From item 3520).....	\$	30,500	433

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The accompanying notes are an integral part of these financial statements

**BARWELL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF BUSINESS** - The Company operates as a stockbroker handling trades on all major exchanges for customers predominantly in central Iowa. The trades are handled through a brokerage clearing house. Receivables represent commissions earned on trading transactions and are due from brokers and dealers. Management considers these receivables to be fully collectible; accordingly, no allowance for doubtful accounts is considered necessary.

**PROPERTY AND EQUIPMENT** - Property and equipment are stated at cost less an allowance for accumulated depreciation. The cost of the property and equipment is depreciated over the estimated useful lives of the related assets. The net book value (cost less accumulated depreciation of \$4,375) of property and equipment was \$477. Depreciation expense for the year was \$238.

**ESTIMATES** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CONCENTRATIONS** - The Company handles a majority of its trades through a single securities broker and dealer and a single future commission merchant. The receivables from brokers arise from these entities.

**TRANSACTIONS RECORDING POLICY** - Customers' securities and commodities transactions are recorded on a trade date basis with related commission income and expenses recovered on a trade date basis.

**NOTE B - SUBORDINATED LOANS**

Borrowings subordinated to the claims of general creditors totaling \$30,500 have been contributed under agreements requiring annual interest payments at 12%. Scheduled maturities of these unsecured notes payable are as follows:

Year ending November 30,

2006	\$ 2,500
2007	28,000
	<u>\$ 30,500</u>

These borrowings are outstanding notes payable to certain shareholders. Interest expense on these related party notes totaled \$3,660 during 2004.

**BARWELL SECURITIES CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE C - INCOME TAXES**

The Company has approximately \$105,000 of unused net operating loss carryforwards at November 30, 2004 that are available to apply against future taxable income. As it is unclear whether the Company will generate sufficient taxable income to utilize the net operating loss carryforwards, the Company has recognized a valuation allowance for the full amount of the deferred tax asset generated by the loss carryforwards. The net operating loss carryforwards begin to expire in 2005.

Deferred tax asset arising from net operating loss carryforwards	\$ 21,543
Valuation allowance	<u>(21,543)</u>
Net deferred tax asset	<u>\$ -</u>

**NOTE D - COMMITMENTS**

The Company leases its office under an operating lease requiring monthly rental payments of \$525. Office lease expense for the year ended November 30, 2004 totaled \$6,583. The lease expires in August 2005.

**NOTE E - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At November 30, 2004, the Company had net capital of \$27,344, which was \$22,344 in excess of its required net capital of \$5,000. The Company's aggregate indebtedness to net capital ratio was .03 to 1.





David W. Hurst, CPA  
Kathleen A. Koenig, CPA  
Robert R. McGowen, CPA  
Michael W. McNichols, CPA  
Thomas J. Pflanz, CPA  
John A. Schmidt, CPA  
Daniel A. Schwarz, CPA  
S. James Smith, CPA

To the Board of Directors  
Barwell Securities Corporation

In planning and performing our audit of the financial statements and supplemental schedules of Barwell Securities Corporation (the Company) for the year ended November 30, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal controls.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at November 30, 2004 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified users.

*McGowan, Hunt, Clark & Smith, P.C.*

West Des Moines, Iowa  
December 17, 2004